

Message Text

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EXDIS

FOR EUR/CE - HEICHLER

E.O. 11652: GDS
TAGS: PFOR, EGEN, GW, US
SUBJECT: PREPARATION FOR THE SUMMIT

REFS: (A) CROWLEY/CASAGRANDE TELECON
(B) SMYSER/HEICHLER TELECON

1. WE APPRECIATE THE OPPORTUNITY TO CONTRIBUTE TO THE
PAPERS YOU ARE WRITING IN PREPARATION FOR THE MAY
SUMMIT. OUR THOUGHTS ON SOME THEMES WHICH YOU MAY WANT
TO EMPHASIZE FOLLOW:

2. SCHMIDT
GERMAN CHANCELLORS HAVE TRADITIONALLY STRONGLY
SOUGHT A PERSONAL, CLOSE AND GOOD WORKING RELATIONSHIP
WITH THE AMERICAN PRESIDENT. HELMUT SCHMIDT IS NO
EXCEPTION. WE SHOULD EXPECT HIM TO BE CHARMING --
WHICH HE CAN BE -- AND ANXIOUS TO IMPRESS THE PRESIDENT
AS A VALUABLE WORKING PARTNER AND COLLEAGUE. HE WILL
PROBABLY RESTRAIN HIS PENCHANT FOR LECTURING TO THE
POINT OF HECTORING. HE WILL STRESS THE COMMONALITY IN
98 PERCENT OF GERMAN AND AMERICAN POSITIONS.

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WHILE WE DO NOT WANT TO MAKE TOO MUCH OF THE POINT,
WE ALSO EXPECT THAT SCHMIDT WILL ARRIVE IN LONDON AS
THE LEADER OF A NATION WHICH IS MORE SELF-CONFIDENT
AND SURE OF ITS POSITION IN THE WORLD THAN THE FEDERAL
REPUBLIC OF ONLY A FEW YEARS AGO. AS THE ECONOMIST
SAID THIS WEEK, THE FRG IS THE U.S.' PARTNER, NOT

SERVANT. SCHMIDT IS WELL AWARE OF THIS FACT. HE IS ALSO AWARE, HOWEVER, THAT WE ARE THE ULTIMATE GUARANTORS OF GERMAN SECURITY, AND THAT GERMAN CHANCELLORS DO NOT WIN POPULARITY BY WEAKENING THE AMERICAN CONNECTION LIGHTLY.

SCHMIDT HIMSELF IS WELL KNOWN FOR HIS OVERT SELF-CONFIDENCE. HIS OPERATING STYLE IS TO RESERVE A LARGE DEGREE OF DECISION-MAKING TO HIMSELF PERSONALLY. HE LIKES TO STEP IN AT THE LAST MOMENT AND PRESENT HIMSELF AS THE "DOER" -- THE MAN WHO CAN FIND A SOLUTION TO AN ISSUE WHICH HAS BEEN DISPUTED UP TO CABINET LEVEL. HE WILL LET SITUATIONS BUILD TO CONFRONTATION, HOPING TO GAIN BY EMERGING AS THE MAN WHO CUT THE GORDIAN KNOT. HE IS TOUGH, BUT REALISTIC.

3. DOMESTIC SITUATION

SCHMIDT'S IMAGE AS A "DOER" HAS BEEN SHAKEN BY THE POOR START OF HIS NEW ADMINISTRATION. DISPUTES OVER PENSION FUNDS, ALMOST WEEKLY DEMONSTRATIONS AGAINST THE CONSTRUCTION OF NUCLEAR POWER PLANTS, WIRETAPPING SCANDALS, LOCAL ELECTION LOSSES FOR THE SPD, AND THE MURDER BY TERRORISTS OF THE FRG'S PROSECUTING OFFICIAL -- ALL ARE VERY REAL PROBLEMS WHICH STRIKE AT THE HEART OF SCHMIDT'S DOMESTIC POLITICAL POSITION. KEPT IN OFFICE ONLY BY A SLIM PARLIAMENTARY MAJORITY AND HIS COALITION WITH THE FDP, SCHMIDT CANNOT AFFORD TO IGNORE THESE PROBLEMS. HE HAS BEEN ON THE DEFENSIVE, REACTING RATHER THAN ACTING, AND IS STILL SECRET

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LOOKING FOR AREAS WHERE HE CAN TAKE INITIATIVES WITHOUT JEOPARDIZING HIS PARLIAMENTARY SUPPORT OR DISRUPTING HIS RATHER CAUTIOUS FINANCIAL AND BUDGETARY POLICIES.

NEVERTHELESS, WE SHOULD NOTE THAT THE GOVERNMENT'S POSITIONS ON TWO CONTROVERSIAL CURRENT ISSUES IN U.S.-FRG RELATIONS -- THE BRAZIL DEAL AND ECONOMIC POLICY-- ARE ENDORSED AND OPENLY SUPPORTED BY THE OPPOSITION. GERMANY'S ROLE AS AN EXPORTER OF ADVANCED TECHNOLOGY IS AT STAKE ON THE ONE; GERMAN SATISFACTION WITH THINGS AS THEY ARE COMES INTO PLAY ON THE OTHER.

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4. ECONOMIC ISSUES: GENERAL COMMENT

AS FAR AS WE CAN ASCERTAIN, THE CHANCELLOR WILL APPROACH THE LONDON SUMMIT ROUGHLY SATISFIED WITH WHAT WE ARE DOING WITH REGARD TO CIEC ISSUES. THE FRG IS PLEASED THAT SOME KIND OF AGREEMENT HAS BEEN PAPERED OVER IN THE COMMUNITY, AND AS FONMIN STATE MINISTER VON DOHNANYI RECENTLY SAID IN A PUBLIC STATEMENT, THE EC AND US APPROACHES SEEM TO BE FAIRLY CLOSE. THE GERMANS WILL PROBABLY BE ANXIOUS TO GET SOME KIND OF COMMITMENT ON A LIBERAL TRADE POLICY AND GIVE MORAL SUPPORT TO THE MTN. THE US SIDE WILL NEED TO PUSH THE GERMANS FURTHER BEYOND SUPPORT IN PRINCIPLE OF LIBERAL TRADE AND TRY TO GET ITS MORE ACTIVE SUPPORT IN MOVING MTN PROGRESS AND GET A CLEAR IDEA AS TO WHAT FRG WILL DO TO ENERGIZE MTN (INCLUDING AGRICULTURE) WITHIN THE EC.

IT SHOULD BE CLEAR THAT THE GERMANS HAVE BEEN DRAGGED INTO AN ACCEPTANCE OF A CLEARING TYPE OF COMMON FUND MOST RELUCTANTLY, AND THE CHANCELLOR WILL CONTINUE TO PRESS HIS EXPORT EARNINGS PROPOSAL AS AN ALTERNATIVE APPROACH, HOPING TO DEFLECT INTEREST FROM THE COMMON FUND. WE CAN ALSO EXPECT THAT THE
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CHANCELLOR WILL RESIST ANY MASSIVE ONE-TIME TRANSFER UNDER SPECIAL ACTION. HE MAY BE ABLE TO SWALLOW A SMALL ONE WHICH IS CLEARLY INTENDED FOR THE POOREST AND IS NOT A BLANK CHECK.

A POTENTIAL SENSITIVE AREA IS THAT OF ENERGY, WHERE IT IS INEVITABLE THAT NUCLEAR POLICY WILL COME TO THE FORE. AT THE SAME TIME WE WOULD EXPECT THE CHANCELLOR TO BE CONCILIATORY TO THE DEGREE HE CAN ON THIS SUBJECT. HE IS LIKELY, HOWEVER, TO EMPHASIZE THE NEED FOR A NON-DISCRIMINATORY POLICY WHICH RECOGNIZE THE DIFFERING REQUIREMENTS OF DIFFERING COUNTRIES.

IN OUR CONTACTS WITH FRG OFFICIALS, WE HAVE GONE OVER THE VARIOUS ECONOMIC SUBJECTS FOR THE SUMMIT AND COME UP WITH SOME GENERALLY AGREED POINTS OF VIEW WHICH PROBABLY REFLECT APPROACHES WHICH THE CHANCELLOR WILL ADOPT DURING THE MEETING.

5. ENERGY POLICY:

FRG OFFICIALS FIND US DRAFT SUBMITTED TO UK TO BE VAGUE, BUT EXPECT CLARIFICATION WHEN US ENERGY POLICY IS ANNOUNCED NEXT WEEK. CHANCELLOR SCHMIDT WILL UNDOUBTEDLY STATE HIS VIEWS THAT EUROPE NEEDS NUCLEAR POWER MORE URGENTLY THAN THE US, BECAUSE OF EUROPE'S GREATER DEPENDENCE ON OIL IMPORTS AND ITS HIGHER-PRICED COAL. SCHMIDT WILL ALSO SAY THAT LIMITED EUROPEAN ACCESS TO WORLD URANIUM SUPPLIES MAKES DEVELOPMENT OF "SENSITIVE TECHNOLOGIES" A NECESSITY FOR EUROPE. CRITICISM OF US FAILURES IN THE CONSERVATION AREA IS NOW APPEARING IN OFFICIAL GOVERNMENT STATEMENTS, AND SCHMIDT MAY WELL USE THE OCCASION TO VENT GERMAN (AND EUROPEAN) UNHAPPINESS WITH US PERFORMANCE. THE CHANCELLOR ALSO FAVORS A
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QUID-PRO-QUO ON SECURITY OF PETROLEUM IN THE NORTH-SOUTH DIALOGUE.

6. NORTH-SOUTH DIALOGUE:

A. FRG OFFICIALS FEEL A NEED TO KNOW WHERE THE US STANDS ON COMMODITY POLICY AND ON SPECIAL ACTION FOR AID TO DEVELOPING COUNTRIES. THEY BELIEVE THAT POLICIES OF ALL INDUSTRIAL COUNTRIES ON THESE QUESTIONS WILL REMAIN AMBIGUOUS UNTIL THE US MAKES ITS POSITION CLEAR. THEY FEEL FAIRLY COMFORTABLE, HOWEVER, WITH WHAT THEY KNOW OF OUR INCLINATIONS SO FAR.

B. RE SPECIAL ACTION, THE FRG BELIEVES THAT THE US OUGHT TO DECIDE WHETHER OR NOT IT WILL PARTICIPATE IN THE KIND OF ACTION PROPOSED BY THE EC AND INFORM THE GROUP MEETING IN WASHINGTON ON APRIL 25

ACCORDINGLY. THE FRG DOES NOT WANT TO GIVE A BLANK CHECK AND WANTS TO BE SURE THAT AID GOES TO THE NEEDIEST COUNTRIES.

C. RE COMMODITY POLICY, FRG OFFICIALS WOULD ALSO LIKE TO KNOW BEFORE THE LONDON SUMMIT WHETHER OR NOT

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THE US SUPPORTS THE UNCTAD COMMON FUND OR THE EXPANDED STABEX OR A LIBERALIZED IMF COMPENSATORY FINANCING FACILITY OR SOME COMBINATION OF THE FOREGOING. WHILE THE FRG WOULD PREFER TO AVOID A COMMON FUND ALTOGETHER, THEY RECOGNIZE THAT THEY MAY EVENTUALLY HAVE TO GO ALONG RELUCTANTLY WITH A CLEARING-HOUSE TYPE OF FUND. IN ORDER TO DEFLECT LDC ATTENTION FROM THE COMMON FUND PROPOSALS, HOWEVER, THEY HAVE PROPOSED AN EXPANDED STABEX AND WOULD FAVOR THIS CONCEPT EVEN IF IT COSTS MORE THAN A COMMON FUND. THE FRG WOULD PROBABLY SUPPORT LIBERALIZATION OF THE IMF COMPENSATORY FINANCING FACILITY TO INCORPORATE THE GIST OF SCHMIDT'S PROPOSAL RE EXPANDED STABEX. THEY BELIEVE EARNINGS STABILIZATION IS NEEDED TO ASSIST THE NUMEROUS LDC'S WHICH WILL NOT BE HELPED BY THE FEW COMMODITY AGREEMENTS THAT ARE LIKELY TO BE CONCLUDED.

7. IN ADDITION TO THESE BASIC QUESTIONS, FRG OFFICIALS HAVE RAISED TWO ADDITIONAL QUESTIONS OF LESSER IMPORTANCE:

A. THE TYING OF HUMAN RIGHTS BEHAVIOR TO DECISIONS
OF THE INTERNATIONAL FINANCIAL INSTITUTIONS INCREASES
THE RISK THAT THESE INSTITUTIONS WILL BE SUBJECT TO
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OTHER POLITICAL PRESSURES IN THE FUTURE. WHILE THE
GERMANS SUPPORT THE CARTER POLICY ON
HUMAN RIGHTS, THEY DOUBT THE WISDOM OF INJECTING
THESE ISSUES INTO DECISIONS OF THE INTERNATIONAL
FINANCIAL INSTITUTIONS.

B. ILLICIT PAYMENTS BY MULTINATIONAL CORPORATIONS
IS ANOTHER ISSUE WHERE THE GERMANS AGREE WITH OUR
POLICY, BUT QUESTION OUR TACTICS. THEY BELIEVE THAT
THIS IS A WORTHWHILE ISSUE TO PURSUE IN OTHER FORA
SUCH AS OECD AND THE UN, BUT DO NOT CONSIDER IT OF
SUFFICIENT SIGNIFICANCE TO OCCUPY THE TIME OF HEADS
OF STATE. THEY RECALL THAT ILLICIT PAYMENTS WAS
PROPOSED BY THE US AT PUERTO RICO, BUT WAS EVENTUALLY
DROPPED FROM THE COMMUNIQUE THERE.

8. ECONOMIC POLICY:

GERMAN GOVERNMENT POLICY AIMS AT PRESENT FOR 5 PER-
CENT REAL GNP GROWTH IN 1977 AND HOLDING THE INCREASE IN
THE CONSUMER PRICE INDEX BELOW 4 PERCENT. WITHIN THESE
PARAMETERS, THE GERMAN GOVERNMENT EXPECTS A 1977 GERMAN
CURRENT ACCOUNT SURPLUS OF DM 4.8 - 7.2 BILLION, DOWN
SLIGHTLY FROM THE DM 7.5 BILLION 1976 SURPLUS.

ASIDE FROM THE QUESTION OF WHETHER THESE AIMS
ARE APPROPRIATE IF SEEN IN AN INTERNATIONAL CONTEXT,
THERE REMAINS THE QUESTION OF WHETHER CURRENT GERMAN
POLICIES ARE LIKELY TO ACHIEVE THEM. THIS IS CERTAINLY
POSSIBLE, BUT IN OUR VIEW NOT LIKELY.

THE GERMAN ECONOMY ENDED 1976 ON A STRONG NOTE,
WITH GNP INCREASING DURING THE FOURTH QUARTER AT A
6 PERCENT ANNUAL RATE (EVEN AFTER ADJUSTMENTS ARE MADE
FOR FEWER THAN NORMAL HOLIDAYS) AND WITH INDUSTRIAL
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PRODUCTION AND NEW ORDERS INCREASING STRONGLY IN
DECEMBER. SINCE THEN, HOWEVER, THE FORCE OF THE
ECONOMIC UPSWING HAS WEAKENED. NEW

INDUSTRIAL ORDERS ARE NOW RUNNING AT ABOUT 10 PERCENT BELOW THE DECEMBER LEVEL (BUT THERE MAY BE SOME STATISTICAL PROBLEMS WITH THE COMPARISON). THE INDEX OF INDUSTRIAL PRODUCTION AFTER A SPURT IN JANUARY FELL BACK BELOW ITS DECEMBER LEVEL IN FEBRUARY. BUSINESS SENTIMENT ALSO SEEMS TO HAVE TURNED MORE BEARISH. ALL OF THIS MAY ONLY CONSTITUTE ANOTHER LULL - LIKE THE ONE LAST SUMMER - BUT EVEN IF THIS SHOULD TURN OUT TO BE THE CASE, WE CONTINUE TO EXPECT THAT THE 1977 RESULTS WILL BE CLOSER TO THE EMBASSY PROJECTION (GNP UP 4 PERCENT IN REAL TERMS; CURRENT ACCOUNT, PLUS DM 7.5 BILLION) THAN THE FRG'S GOALS.

IF ECONOMIC GROWTH SHOULD LAG CONSIDERABLY BEHIND THE GOVERNMENT'S 5 PERCENT GOAL, THERE MOST CERTAINLY WILL DEVELOP INCREASED INTERNAL POLITICAL PRESSURE (I.E., UNEMPLOYMENT) FOR GERMAN EXPANSIONARY MEASURES AND THE GOVERNMENT IS LIKELY TO CHANGE ITS POLICY STANCE AS A RESULT. BUT UNLESS THE ECONOMIC INDICATORS POINT EXTREMELY STRONGLY ONE WAY OR THE

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OTHER IN THE NEXT FEW WEEKS, THE PICTURE IS LIKELY TO BE STILL UNCERTAIN AT THE TIME OF THE SUMMIT AND A SIGNIFICANT CHANGE IN THE GERMAN GOVERNMENT'S POLICY WILL NOT COME ABOUT UNTIL LATER IN THE YEAR.

AT THE SUMMIT, SCHMIDT IS LIKELY TO CONTINUE TO BE IMPATIENT WITH INTERNATIONAL CRITICISM OF GERMAN ECONOMIC POLICY AND SURE OF A VERY HIGH DEGREE OF

DOMESTIC CONSENSUS IN RESISTING PRESSURE FROM ABROAD FOR "REFLATION".
WHILE THE FRG IS BY NOW FAIRLY WELL
"LOCKED IN" ON POLICIES EFFECTIVE FOR 1977 AND WHILE
BEING "PRESSURED" ON THIS ISSUE AT THE SUMMIT IS LIKELY
TO IRRITATE THE CHANCELLOR AND COULD BECOME COUNTER-
PRODUCTIVE, SOME RESTRAINED, NON-PUBLIC DISCUSSION
MAY NEVERTHELESS HELP PAVE THE WAY FOR A LATER CHANGE
OF POLICY WHEN THE CRITICAL TAX AND
BUDGET POLICY DECISIONS FOR 1978 HAVE BEEN MADE EARLY THIS SUMMER.

9. AS FOR SPECIFIC POLITICAL ISSUES THAT WE UNDER-
STAND TO BE ON THE AGENDA:

A. SALT AND EAST-WEST RELATIONS

SCHMIDT WILL BE INTENSELY INTERESTED IN THE
STATE OF PLAY IN OUR DISCUSSIONS WITH THE SOVIETS
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OVER SALT. THE GERMANS CAN CONTRIBUTE LITTLE HERE;
RATHER, THEY WILL BE LOOKING FOR A BRIEFING FROM US.
BREZHNEV IS TENTATIVELY SCHEDULED TO VISIT BONN NEXT
FALL. SCHMIDT WANTS THE VISIT TO BE A SUCCESS SO
THAT IT CAN PROVIDE SOME MOMENTUM TO SOVIET-GERMAN
BILATERAL RELATIONS, AS WELL AS CONTRIBUTE TO LONG-
RANGE EAST-WEST DETENTE, TO WHICH THE FRG IS FIRMLY
COMMITTED.

SCHMIDT WILL ALSO BE INTERESTED IN OUR VIEW OF
EAST-WEST RELATIONS AND HOW THEY WILL DEVELOP. HE
NEEDS TO KNOW WHERE WE ARE GOING ON DETENTE, THOUGH
IT IS NOT YET CLEAR WHAT IMPACT THIS WILL HAVE ON
SOVIET-GERMAN RELATIONS. SUBSTANTIVE PREPARATION
OF THE BREZHNEV VISIT HAS BEEN STYMIED PRINCIPALLY
ON QUESTIONS RELATING TO BERLIN. IN THIS CONNECTION,
SCHMIDT WILL UNDOUBTEDLY HOPE THAT THE PRESIDENT WILL
REAFFIRM THE US COMMITMENT TO BERLIN AS APPROPRIATE
IN THE QUADRIPARTITE DISCUSSIONS.

THE FRG WILL BE WATCHING THE SITUATION IN
EASTERN EUROPE CLOSELY. WHILE THE GERMANS ARE STRONG
PROponents OF EVOLUTION OF THE COMMUNIST SYSTEM
AND DEVELOPMENT OF POLYCENTRICISM IN EASTERN EUROPE,
THEY DO NOT WANT TO SEE PRESENT DISSATISFACTION
DEVELOP INTO DANGEROUS INSTABILITY. PARTLY FOR THIS
REASON THEY ARE NOT ANXIOUS TO CHALLENGE THE SOVIET
UNION SO STRONGLY AT BELGRADE DURING THE CSCE REVIEW
CONFERENCE THAT THE WHOLE CSCE SYSTEM MIGHT COLLAPSE.
THEY BELIEVE CSCE PAYS DIVIDENDS AND THAT WE
SHOULD NOT THROW OUT THE BABY WITH THE BATHWATER

BECAUSE CSCE HAS NOT WORKED PERFECTLY.

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B. HUMAN RIGHTS

THE GERMAN CONCERN FOR HUMAN RIGHTS IS DEEP, EVIDENT, AND GENERALLY SUPPORTIVE OF US POLICY. HOWEVER, THE FRG HAS STRESSED THE RIGHT TO TRAVEL AND TO EMIGRATE MORE THAN THE RIGHT TO DISSENT. WHILE NO ONE FEELS MORE STRONGLY THE DENIAL OF HUMAN RIGHTS TO FELLOW GERMANS IN THE GDR, THE WEST GERMANS ALSO ATTACH A GREAT DEAL OF IMPORTANCE TO THE MAINTENANCE OF STABILITY IN THE GDR SO THAT THE BARRIERS WHICH SEPARATE THE GERMAN PEOPLE CAN BE GRADUALLY REMOVED. SCHMIDT PROBABLY WONDERS IF WE HAVE THOUGHT THROUGH THE CONSEQUENCES OF OUR PRESENT EMPHASIS ON THE RIGHT TO DISSENT. HE MAY ASK IF IT WILL IMPAIR EMIGRATION, FOR EXAMPLE, OR PRODUCE INSTABILITY THAT COULD RESULT IN REPRESSION.

C. CONVENTIONAL ARMS TRANSFERS

THE FRG FOLLOWS THE MOST RESTRICTIVE EXPORT POLICY OF ANY MAJOR ARMS SUPPLIER. IT FACES, HOWEVER, BOTH DOMESTIC ECONOMIC PRESSURES AND A NEW DILEMMA, BECAUSE ITS ARMS ARE CO-PRODUCED WITH EUROPEAN NEIGHBORS TO AN INCREASING EXTENT. IF THESE PARTNERS
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FOLLOW MORE LIBERAL ARMS EXPORT POLICIES, THE FRG IS UNDER PRESSURE TO PERMIT EXPORTS IT MIGHT OTHERWISE RESTRICT IF THE WEAPON WERE SOLELY GERMAN PRODUCED. WE BELIEVE SCHMIDT WILL SUPPORT A JOINT EFFORT TO CONTROL INTERNATIONAL TRAFFICKING IN ARMS IF THE US DEMONSTRATES IT IS REALLY SERIOUS ABOUT RESTRICTING ITS OWN ARMS TRANSFERS. SCHMIDT WILL ALSO WISH TO ENSURE THAT THE SOVIETS AND THEIR ALLIES DO NOT TAKE ADVANTAGE OF WESTERN RESTRAINT.

10. PORTUGAL

FAILURE ON THE US SIDE TO MENTION MATTERS ON WHICH WE PLACE HIGH IMPORTANCE WILL BECOME NOTABLE BY THEIR ABSENCE. FOR EXAMPLE, THE NEEDS OF PORTUGAL SHOULD INDEED BE RAISED BY THE US SIDE.
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